Annual Statement Regarding Governance

London United Busways Trustee Company No.3 Limited (the 'Trustee') is the trustee of the London United Busways Retirement Benefits Plan (the 'Plan').

This statement sets out the steps taken by the Trustee to meet the statutory governance standards that apply to defined contribution (DC) benefits. The Trustee operates a DC Working Party that focuses on the management of the Plan's DC benefits. The DC Working Party is made up of a sub-group of Trustee Directors and the Trustee's DC consultant (Mercer). The work of the DC Working Party is reported back to the Trustee.

Members have the following DC benefits in the Plan:

- Additional Voluntary Contributions ('AVCs') – no new AVCs were accepted after 30 June 2017.
- Benefits in the Pension Investment Plan ('PIP') – no contributions could be made to the PIP after 24 October 2013.

This statement relates to the period 1 January 2019 to 31 December 2019. It has been prepared in compliance with regulation 23 of The Occupational Pension Schemes (Scheme Administration) Regulations 1996 (the 'Administration Regulations').

Key terms

This statement uses some terms that you may not be familiar with, in particular:

- Some of the investment funds are 'with-profits' and some are 'unit-linked'. Broadly speaking, a unit linked fund is an investment vehicle that pools assets and gives investors a unit that entitles them to a share of the assets including their investment return or loss. A with profits fund is similar to a unit linked fund but seeks to smooth out the ups and downs of investment returns and provide guarantees.
- Transaction costs are the expenses incurred by asset managers when buying, selling, lending or borrowing investments.
- 'Smoothing' is a term relevant to with profit funds, and is broadly speaking, when profit in good years is held back to cover losses in bad years).
- A Market Value Reduction (only applicable to the Clerical Medical With Profits Fund) is a way of ensuring that members in a with profits fund do not lose out when another member in a with profits fund takes his or her savings out early.

1. Default investment option

In summary, a default investment option is an investment fund that is used for members who join pension arrangements but do not choose how their DC savings are invested.

There is no default option in relation to the AVCs. This is because members made an investment choice when opting to make AVCs.

However, from a review of the joining documentation for the PIP, the Trustee has received legal advice indicating that the Clerical Medical With Profits Fund is a default investment option for the PIP.

Details of the investment strategy (i.e. the Trustee's aims, objectives and policies for the default option) are set out in a document called the Statement of Investment Principles (the 'SIP'). The latest copy of the SIP for the default investment option is appended to this statement. It has been prepared in accordance with regulation 2A of the Occupational Pension Schemes (Investment Regulations) 2005. Part of the SIP's aim is to articulate the principles and policies that guide the Trustee's decisions when making investments.

The objectives of the default arrangement are to achieve a stable and smoothed level of return over the medium to long term. The Trustee has selected a Clerical Medical With Profits Fund because its objectives are consistent with the Trustee's. The fund is invested in a range of assets including equities, government and corporate bonds, property and cash. The strategic investment mix is reviewed regularly by Clerical Medical and assets are chosen with a view to getting the best possible long-term performance and making sure the fund can meet its guarantees. It may provide bonuses in line with policies, and additionally guarantees at the discretion of Clerical Medical and depending on the investment performance of the fund's underlying assets.

The Trustee's DC Working Group conducts an annual review of the DC arrangements including performance of the default, with help from professional advisers. This annual review, undertaken by the DC Working Group, includes reviewing a comprehensive monitoring report, which includes past performance.

The Trustee also carries out a more in-depth review of both the strategy and performance of the default option at least every three years (and more often if there are any significant changes in investment policy or the membership) as required by legislation.

The Trustee did not conduct that in-depth review of the default investment strategy and performance of the default investment option (as required by regulation 2A of the 2005 Investment Regulations) in 2019. The last such review was carried out at the Trustee's meeting held on 23 November 2017. That review involved the Trustee's investment advisers producing a comprehensive report on the PIP and AVC investment options, which was reviewed and discussed by the Trustee's DC Working Party with a view to deciding whether any changes were needed. This included a review of the strategy of the default investment option (i.e. its aims and objectives, and the Trustee's investment principles, with a view to seeing if the assets in that default option were invested in the interests of members) and its past performance against that strategy. The Trustee decided not to make any changes to the default investment option because it, and its investment advisers, were of the view that the value of the PIP/AVC assets, combined with the lack of ongoing contributions and limited alternative options in the market, meant the Plan wouldn't be able to secure appropriate alternative investments via a bundled product elsewhere in the market. Consequently, the decision was taken to retain the current default investment option, in its current form, and instead communicate with members to encourage them to review their investments. Since 2018, the Trustee's work has focused on managing the consequences of Equitable Life's closure proposal, in the best interest of members.

Throughout 2019, the Trustee continued its work to manage the proposed court-approved transfer from Equitable Life to Utmost Life and Pensions Limited. There was an opportunity for the Trustee, as a policyholder, to influence the closure and transfer proposal. After due consideration, having received professional advice, the Trustee decided to vote in favour. The decision took into account the compensation that was being offered to members invested in the Equitable Life With Profits Fund, in return for the guarantees that would no longer apply, and the likelihood that the estimated extra amount being proposed would, when invested, provide a better outcome for the member. The transfer was approved by the court, including the new investment options proposed as part of the transfer. Members invested in the Equitable Life With Profits fund would need to be reinvested in new funds. Members invested in other funds via the Equitable Life policy, including the Clerical Medical With Profits Fund, also moved to Utmost, but those investments have not been subject to any charges.

The Trustee received regulated advice as to the appropriateness of the new options and proposed investment strategy for members being moved out of the Equitable Life With Profits Fund. Building on the previous member communications from 2018 regarding the transfer, the Trustee wrote to affected members to let them know their options. The transition to the new investment options is expected to complete in June 2020. For the remainder of 2020 the Trustee will be working with their advisers to manage the impact of the completion of the transfer to Utmost and will be considering scheduling the next investment strategy review, in the context of broader long term strategic aims.

The processing of core financial transactions

As required by the Administration Regulations, the Trustee must ensure that core financial transactions are processed promptly and accurately. This section explains how it does that.

This includes the following actions so far as they relate to DC benefits:

- Investment of contributions paid to the Plan;
- Transfer of members' assets into and out of the Plan;
- Transfers of members' assets between different investment options available in the Plan; and
- Payments from the Plan to, or in respect of, members

Since the AVC and PIP arrangements no longer accept new contributions, the main transactions that occur are paying out of benefits and the switching of investment options (if any).

For 2019 these transactions were undertaken on the Trustee's behalf by Equitable Life, as the investment and administration provider during 2019 in respect of the Plan's DC benefits.

There were no service level agreements in place with Equitable Life. Equitable life did not disclose the processes that they have in place to ensure that core financial transactions proceeded promptly and accurately. They provided the Trustee with annual transaction summaries, but these did not set out sufficient detail to enable the Trustee to assess the accuracy and timeliness of core financial transactions. Our advisers, Mercer, on behalf of all of their clients that held investments with Equitable Life, asked Equitable Life to provide this information to policyholders, but they declined. This affected all pension schemes with Equitable Life investments. Mercer continues to monitor this on behalf of the Trustee, in respect of Utmost's ongoing services.

Mercer, as the Plan administrator, also has a role in the processing of core financial transactions. Mercer will process the payment of member benefits out of the Plan and would receive any investment switching options (via the in-house Pensions Officer). Mercer then instruct Equitable Life to make the appropriate disinvestment or investment switch. The Trustee has service level agreements in place with Mercer that cover the accuracy and timeliness of this element of the financial transaction process.

Mercer records all member transactions and benefit processing activities in a work management system, which assigns the relevant timescale to the task.

Mercer's administration reports disclose performance against agreed timescales. These disclosures are considered by the Trustee at their meetings and are reviewed against the targets set. The Trustee requires additional disclosures in respect of any transactions and benefit processing activity that has not been completed within the agreed timescales including the cause of the delay, the extent to which agreed timescales are breached and the proposed remedial measures.

The Trustee also monitor the accuracy of the Plan's data quarterly. A summary report is received from the Plan administrator.

As a wider review of the Plan administrator in general, the Trustee receives the Plan administrator's assurance report on internal controls. For the Plan year, the report received was for the period 1 January 2018 to 31 December 2018 and noted the Independent Service Auditor's opinion that, in all material aspects, its controls were suitably designed and those tested operated effectively.

During 2019, the Trustee did not identify any instances where core financial transactions were not processed promptly and accurately.

The Plan's risk register details the risks to Plan members associated with a failure to process core financial transactions promptly and accurately and it is monitored and reviewed on at least an annual basis.

Matters that arise relating to the administration of DC benefits are discussed at regular DC Working Party meetings.

Charges and transaction costs during 2019

The Administration Regulations require the Trustee to assess charges and (to the extent it is able to) transaction costs that are borne by members and the extent to which they represent good value.

All investment funds were on an investment platform operated by Equitable Life.

Charges borne by members

The default investment option for PIP benefits, the Clerical Medical With Profits Fund, attracts an explicit annual management charge of 0.50% p.a. This was the annual management charge during 2019 and there is no anticipated change for 2020. (The level of transaction costs payable in relation to this fund is unknown as explained below.)

However, the total charges underlying a with profits investment are not clear. Pay outs on "surrender" and "maturity" (i.e. disinvestment) will reflect all charges incurred, though they are not separately identified. Moreover, the actual performance received by members, net of charges, is only ever known upon maturity/surrender, after any increase for guaranteed terms and after the effect of 'smoothing' For example, if the guarantee impacts on the amount paid out, it could mean the underlying charges have been zero. This lack of clarity is relevant to the Clerical Medical With Profits Fund and the Equitable Life With Profits Fund.

For other investments, that are not with-profits investments, and called 'unit linked' funds, the annual management charge (plus any relevant transaction charges – see below) are the only charges payable by members.

In addition to the PIP default investment option, the Trustee also makes available range of alternative investment options that may be chosen by members.

The annual management charges and transaction costs for the funds that make up the investment strategy for the alternative investment options are:

Fund	AMC during 2019 as % of assets under management	Other costs including transaction costs as % of assets under management	Total charges impact as % of assets under management
European	0.75 %	0.07 %	0.82 %
Far Eastern	0.75 %	0.16 %	0.91 %
Gilt & Fixed Interest	0.50 %	0.10 %	0.60 %
International Growth	0.75 %	0.05 %	0.80 %
Managed	0.75 %	0.07 %	0.82 %
Money	0.75 %	0.01 %	0.51 %
Pelican	0.75 %	0.19 %	0.94 %
Clerical Medical With-profits#	0.50 %*		
Equitable Life With Profits#	1.00 %	0.03 %	1.03 %

* Equitable Life has not confirmed the full costs for the Clerical Medical With-profits fund, albeit they have produced illustrations as to the impact of the cost and charges. This means the Trustee has not been able to obtain the level of transaction costs applicable to this fund. The Trustee will continue to liaise with Equitable Life to obtain confirmation of the full costs and Mercer will do so on its behalf (and on behalf of their other affected clients, as agreed).

By its nature, the charging structure is not transparent – for example, investment returns are earned in the form of discretionary bonuses calculated by the provider. Additionally, amounts paid out are smoothed over a period and won't specifically reflect the value of the underlying assets.

The annual management charge consists principally of the fund manager's annual charge for managing and operating a fund, but also includes the costs for other services paid for by the fund such as legal costs, registration fees and custodian fees. Equitable Life has confirmed that transaction costs are met out of members' funds in addition to the annual management charge.

Transaction costs borne by members

To date transaction costs have been difficult to identify which is why the government and regulators have introduced requirements on asset managers to disclose this information. However, not all managers have done this yet.

The information disclosed by Equitable Life on transaction costs has been included in the table above. Equitable Life confirmed that no charges are applied to switch investments between funds (though a Market Value Reduction may apply in respect of the Clerical Medical With Profits Fund.

As noted above, the Trustee has been unable to obtain information about the level of transaction costs applicable to the Clerical Medical With Profits Fund (the PIP) default investment option. The Trustee continued to ask Mercer to liaise with Equitable Life (as Mercer did do on behalf of its other affected clients, as agreed) to seek to obtain a complete set of transaction costs information.

Illustration of the impact of costs and charges

Using the charges and transaction cost data provided by Equitable Life and in accordance with regulation 23(1)(ca) of the Administration Regulations the Trustee, with Equitable Life's and Mercer's assistance, has prepared an illustration detailing the impact of the costs and charges typically paid by a member of the Plan on their retirement savings.

The below illustration has taken into account the following elements:

- Savings pot size;
- Real terms investment return gross of costs and charges;
- Adjustment for the effect of costs and charges; and
- Time.

To illustrate the impact of charges on a typical member's pension pot, we have provided an example below. This includes all member costs, including the Total Expense Ratio, transaction costs and inflation. The illustration covers all possible time periods. On average, a member has a total fund value of c. £7,000 as at 31 December 2019.

The Trustee has had regard to DWP's statutory guidance when preparing this example. However, to help members compare and contrast how the different cost and charges will impact the money invested in each fund in use, we have equally split the average total fund value of £7,000 between the 7 different funds that members were invested in. This means each fund is assumed to have a starting amount of £1,000. This is not necessarily reflective of the median amount that is invested in each fund. This is the only material way in which the below example deviate from the approaches suggested by the statutory guidance. The charges contained in the illustration are in pounds (£).

Term	With-Profits		Managed		UK Equity		Global Equity		UK Government		Money Market		CM Unitised With-Profit	
	Before Charges	After Costs and Charges Deducted	Before Charges	After Costs and Charges Deducted	Before Charges	After Costs and Charges Deducted	Before Charges	After Costs and Charges Deducted	Before Charges	After Costs and Charges Deducted	Before Charges	After Costs and Charges Deducted	Before Charges	After Costs and Charges Deducted
1	1,010	985	1,010	1,002	1,020	1,009	1,020	1,011	985	979	980	976	1,010	1,000
3	1,030	956	1,031	1,006	1,060	1,028	1,060	1,033	957	940	943	928	1,030	999
5	1,050	927	1,052	1,010	1,101	1,047	1,101	1,056	929	901	906	883	1,050	998
10	1,102	860	1,107	1,020	1,213	1,097	1,213	1,115	863	812	821	781	1,102	995
15	1,157	797	1,165	1,030	1,336	1,149	1,336	1,177	802	732	744	690	1,157	993
20	1,214	778	1,226	1,041	1,472	1,204	1,472	1,242	745	660	674	609	1,214	990
25	1,275	817	1,290	1,051	1,621	1,261	1,621	1,312	692	595	611	538	1,275	988
30	1,338	858	1,358	1,061	1,786	1,321	1,786	1,385	643	536	554	476	1,338	985
35	1,405	900	1,429	1,072	1,967	1,383	1,967	1,462	597	483	502	420	1,405	983
40	1,475	945	1,503	1,083	2,166	1,449	2,166	1,543	554	436	455	371	1,475	981

Notes:

1. Projected pension pot values are shown in today's terms, and do not need to be reduced further for the effect of future inflation.
2. The starting investment amount in each Fund in use is assumed to be £1000.
3. Inflation is assumed to be 2.5% p.a.
4. Values shown are estimates and are not guaranteed
5. The projected growth rate for each fund are as follows
   With-Profits 3.5% p.a.
   Unit-Linked Equity 4.5% p.a. (FTSE Tracker, Managed, UK Equity, Asia Pacific Equity, European Equity, US Equity, Fund of Investment Trusts, Global Equity, Property)
   Unit-Linked Fixed Interest 1.00% p.a. (UK Government Bond)
   Unit-Linked Cash 0.5% p.a. (Money)
6. The Plan has a guaranteed roll-up rate of 3.5% p.a. for the Equitable Life With-Profits Fund. A ‘rolled up’ rate means that the interest is not paid at the end of the year but instead added to the fund value, and it’s on that fund value (including the interest) on which the next year’s interest is applied.

Source: Equitable Life

This statement has been produced having regard to the Department of Work and Pension’s September 2018 guidance: ‘Reporting of costs, charges and other information: guidance for trustees and managers of relevant occupational schemes’.

Value for Money

In accordance with the Pensions Regulator's DC Code of Practice number 13 and the Administration Regulations, the Trustee (having taken professional advice) has carried out an assessment of the extent member borne DC charges and transaction charges (to the extent known) represent good value for members.

Good value means different things to different people. The Trustee believes that it balances costs against benefits (such as services). However, there are circumstances affecting Utmost at the moment which play a large part in a good value analysis.

The Trustee assessment followed the process undertaken previously, whereby the Trustee applied an assessment framework for measuring price, performance and productivity of the funds, scheme governance, at retirement solution, administration, online access & member tools and Member services & communications. Both costs and quality of services were taken into account. A poor, neutral and good rating system was used. The criteria were not weighted but instead reviewed holistically. Mercer advised the Trustee on their analysis and as such the Trustee benefits from Mercer’s understanding of the DC market and comparative offerings.

The Trustee reviewed Mercer's assessment (issued on 9 April 2020 and approved by the Trustee on 21 April 2020) and concluded that the costs and charges paid by members represents poor value for money because:

- Whilst the closure deal and transfer to Utmost was overall assessed as being in the best interest of members, particularly due to the compensation on offer to applicable members, the range of future investment options with Utmost nudges the overall value from neutral to poor.
- Charges on funds have been assessed by our advisors as comparing as around average / neutral with those of peer funds. They could be considered as high by current DC standards but with the Plan closed to future contributions and due to the relatively small amount of total assets better terms will be difficult to obtain;
- The performance of the Plan's funds over the 5 years to 31 March 2019 has been mixed with a number of funds failing to beat or match their benchmark, although where unit linked funds have performed below median this has only been marginal. hence representing reasonable to poor value for members;
- Scheme governance was broadly assessed as good. The structure put in place, including the DC Working Group, and separate meetings provides for specific focus on defined contribution issues and topics;
- As a retirement solution, the Plan allows options as required under legislation but not much flexibility. This is therefore seen as neutral;
- Utmost has service standards of between 5 and 10 working days, recently extended to 15 days in the current Covid-19 environment. As an additional overlay the Mercer administration team has a service level agreement in place that is monitored quarterly. This was assessed as good overall and
- Utmost doesn't offer online access and minimal member communications. The Trustee has been providing member information at this uncertain time to ensure members have the opportunity to make appropriate choices and will keep members informed throughout this period of change.

In reaching this conclusion the Trustee was also mindful of Utmost as a new commercial business unlike the Equitable Life's "mutual" status, where it was owned by its With Profits Fund policyholders and the uncertainty that brings to longer term changes. During 2020, the Trustee will manage the impact of the transition to Utmost, taking specific account of the uncertainty caused by the coronavirus pandemic, before picking up the work it started in 2018 (interrupted by the transfer to Utmost) and investigating viable long term options to improve member outcomes. This will be completed in conjunction with the default investment strategy review due later in 2020.

The Trustee Directors did not believe that it was proportionate to undertake a market review of price and performance for the with profits investments. This is because Switching away from the Clerical Medical With Profits Fund would mean the loss of guarantees and may incur a Market Value Reduction.

Trustee knowledge and understanding

In accordance with sections 247 and 248 of the Pensions Act 2004 and TPR Code of Practice 07, the Trustee Directors are required to maintain an appropriate level of knowledge and understanding which, together with professional advice which is available to them, enables them to properly exercise their functions and duties in relation to the Plan. This requirement has been met during 2019 as follows:

- All Trustee Directors have now completed The Pension Regulator's Trustee Toolkit (an online learning platform for trustees) and new directors are required to complete this within six months of becoming Trustee Directors of the Plan
- The Trustee Directors maintain a trustee training log, which the Plan Secretary and Chair review to identify knowledge gaps in and agree how to address the gaps. They also take suggestions to identify gaps based on upcoming Trustee business.
- The Trustee receives regular advice from its actuarial, investment, legal, audit and consultancy advisers. Advisers regularly attend Trustee meetings and help the Trustee to obtain the necessary working knowledge of pensions law, funding and investment issues. Trustee advisers provide the Trustee with specific training on relevant items and proactively flag new regulatory, legal or market changes that would materially impact the Plan. The papers for every main Trustee meeting contain a Mercer paper flagging such changes over the last few months. The Trustee received training from Mercer on the specific critical issues surrounding the developments at Equitable Life throughout 2019. The Trustee Directors also received initial training on new developments relating to 'GMP equalisation' and further training will follow in 2020.

- The Trustee Chair has been a Trustee Director of the Plan for 16 years. The Trustee also has (as required) one third representation by member-nominated Trustee Directors, who enable the Trustee to always access a member-perspective (in line with those individual's trustee duties).
- The Trustee Directors include a professional independent trustee, with a considerable amount of trustee and pensions consulting experience. He has a great deal of high quality experience as a trustee of both DB and DC schemes and an in depth knowledge of governance and operational issues for pension schemes. In particular, he has a great deal of understanding of the Plan's administration practices and is conversant with the Plan rules, SIP, statement of funding principles and trustee policies. He and his colleagues helped draft some of those policies when he came a Trustee Director of the Plan. The professional trustee came on board prior to the Plan closure to accrual and so quickly became familiar with its benefit structure, funding levels and investment strategies.
- Support is provided by a Plan secretary provided by the Company's in-house pensions function.
- The Trustee regularly takes advice from their investment consultants and legal advisers in respect of matters of funding, investment and pensions law and trusts, and the Chair (and/or the Plan Secretary on his behalf) liaises with those advisers about the agenda for upcoming Trustee meetings.

The Trustee Directors are conversant with the Plan's SIP and review this with assistance from the Plan's investment advisers. This is evidenced by the fact that the SIP is discussed at relevant Trustee meetings and also between the Chair and the investment consultant on a more regular basis. They also have a working knowledge of the Plan rules and Trustee policies. This is demonstrated in Trustee meetings when the Trustee Directors, and the advisers, are discussing member death cases or other issues relating to the Plan's operation. These requirements are also met as a result of the bullet points above.

Collectively they are an independent minded group of Trustee Directors who work collectively and collaboratively with all of their advisers.

During 2019 a self-assessment process was implemented. Each Trustee director filled out a questionnaire that helped them identify any areas for development, which was then reviewed by the Chair. No specific training was identified from the questionnaires. Training to support the decisions taken in response to Equitable Life's proposed changes was also received. The Chair has also approached the Plan's legal advisers and requested refresher training on the Plan trust deed and rules. A self-assessment process will be run annually.

It has been some years since a new Trustee Director joined the Trustee (who was not a professional). However, the Trustee is mindful that should a new trustee appointment take place a proper induction programme will be needed to ensure the new trustee director becomes conversant with the Plan and the pensions industry and legal and regulatory standards.

Taking account of the Trustee Directors as individuals and collectively, and the professional advice available to them, the Trustee Directors consider that they have appropriate knowledge and understanding. It means that when making trustee decisions, the Trustee Directors ask the right questions of the right adviser and properly challenge all of their advisers, as well as instinctively knowing which documents to refer to and what requirements must be adhered to. Importantly it means they 'know what they don't know' and when to obtain professional advice to plug the gap. These actions demonstrate that the Trustee Directors are enabled to carry out their duties as trustees.

I confirm that the above statement has been produced by the Trustee Directors to the best of our knowledge.

Signed on behalf of the Trustee Company on 17 July 2020

.... Trustee Director